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House Engrossed

State of Arizona
House of Representatives
Forty-seventh Legislature
First Regular Session
2005

HOUSE BILL 2323

AN ACT

AMENDING SECTIONS 43-222 AND 43-1021, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 43-1090.01 AND 43-1090.02; AMENDING SECTION 43-1121, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1182; RELATING TO INDIVIDUAL AND CORPORATE INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-222, Arizona Revised Statutes, is amended to
3 read:

4 43-222. Income tax credit review schedule

5 Each year the joint legislative income tax credit review committee
6 shall review the following income tax credits:

7 1. In 2004, sections 43-1081.01, 43-1083, 43-1084 and 43-1170.01.

8 2. In 2005, sections 43-1087, 43-1088 and 43-1175.

9 3. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,
10 43-1090, 43-1176 and 43-1181.

11 4. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165,
12 43-1166, 43-1167 and 43-1169.

13 5. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and
14 43-1178.

15 6. In 2009, sections 43-1076 and 43-1162.

16 7. IN 2010, SECTIONS 43-1090.01, 43-1090.02 AND 43-1182.

17 Sec. 2. Section 43-1021, Arizona Revised Statutes, is amended to read:

18 43-1021. Additions to Arizona gross income

19 In computing Arizona adjusted gross income, the following amounts shall
20 be added to Arizona gross income:

21 1. A beneficiary's share of the fiduciary adjustment to the extent
22 that the amount determined by section 43-1333 increases the beneficiary's
23 Arizona gross income.

24 2. An amount equal to the "ordinary income portion" of a lump sum
25 distribution that was excluded from federal adjusted gross income pursuant to
26 section 402(d) of the internal revenue code.

27 3. The amount of interest income received on obligations of any state,
28 territory or possession of the United States, or any political subdivision
29 thereof, located outside the state of Arizona, reduced, for tax years
30 beginning from and after December 31, 1996, by the amount of any interest on
31 indebtedness and other related expenses that were incurred or continued to
32 purchase or carry those obligations and that are not otherwise deducted or
33 subtracted in arriving at Arizona gross income.

34 4. Annuity income received during the taxable year to the extent that
35 the sum of the proceeds received from such annuity in all taxable years prior
36 to and including the current taxable year exceeds the total consideration and
37 premiums paid by the taxpayer. This paragraph applies only to those
38 annuities with respect to which the first payment was received prior to
39 December 31, 1978.

40 5. The excess of a partner's share of partnership taxable income
41 required to be included under chapter 14, article 2 of this title over the
42 income required to be reported under section 702(a)(8) of the internal
43 revenue code.

44 6. The excess of a partner's share of partnership losses determined
45 pursuant to section 702(a)(8) of the internal revenue code over the losses
46 allowable under chapter 14, article 2 of this title.

1 7. The amount by which the adjusted basis of property described in
2 this paragraph and computed pursuant to the internal revenue code exceeds the
3 adjusted basis of such property computed pursuant to this title and the
4 income tax act of 1954, as amended. This paragraph shall apply to all
5 property which is held for the production of income and which is sold or
6 otherwise disposed of during the taxable year, except depreciable property
7 used in a trade or business.

8 8. The amount of depreciation or amortization of costs of any capital
9 investment that is deducted pursuant to section 167 or 179 of the internal
10 revenue code by a qualified defense contractor with respect to which an
11 election is made to amortize pursuant to section 43-1024.

12 9. The amount of gain from the sale or other disposition of a capital
13 investment which a qualified defense contractor has elected to amortize
14 pursuant to section 43-1024.

15 10. Amounts withdrawn from the Arizona state retirement system, the
16 corrections officer retirement plan, the public safety personnel retirement
17 system, the elected officials' retirement plan or a county or city retirement
18 plan by an employee upon termination of employment before retirement to the
19 extent they were deducted in arriving at Arizona taxable income in any year.

20 11. That portion of the net operating loss included in federal adjusted
21 gross income which has already been taken as a net operating loss for Arizona
22 purposes or which is separately taken as a subtraction under the special net
23 operating loss transition rule.

24 12. Any nonitemized amount deducted pursuant to section 170 of the
25 internal revenue code representing contributions to an educational
26 institution which denies admission, enrollment or board and room
27 accommodations on the basis of race, color or ethnic background except those
28 institutions primarily established for the education of American Indians.

29 13. The amount paid as taxes on property in this state with respect to
30 which a credit is claimed under section 43-1078.

31 14. Amounts withdrawn from a medical savings account by the individual
32 during the taxable year computed pursuant to section 220(f) of the internal
33 revenue code and not included in federal adjusted gross income.

34 15. Any amount of agricultural water conservation expenses that were
35 deducted pursuant to the internal revenue code for which a credit is claimed
36 under section 43-1084.

37 16. The amount by which the depreciation or amortization computed under
38 the internal revenue code with respect to property for which a credit was
39 taken under section 43-1080 exceeds the amount of depreciation or
40 amortization computed pursuant to the internal revenue code on the Arizona
41 adjusted basis of the property.

42 17. The amount by which the adjusted basis computed under the internal
43 revenue code with respect to property for which a credit was claimed under
44 section 43-1080 and which is sold or otherwise disposed of during the taxable
45 year exceeds the adjusted basis of the property computed under section
46 43-1080.

1 18. The amount by which the depreciation or amortization computed under
2 the internal revenue code with respect to property for which a credit was
3 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
4 depreciation or amortization computed pursuant to the internal revenue code
5 on the Arizona adjusted basis of the property.

6 19. The amount by which the adjusted basis computed under the internal
7 revenue code with respect to property for which a credit was claimed under
8 either section 43-1081 or 43-1081.01 and which is sold or otherwise disposed
9 of during the taxable year exceeds the adjusted basis of the property
10 computed under section 43-1081 or 43-1081.01, as applicable.

11 20. The deduction referred to in section 1341(a)(4) of the internal
12 revenue code for restoration of a substantial amount held under a claim of
13 right.

14 21. The amount by which a net operating loss carryover or capital loss
15 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
16 code exceeds the net operating loss carryover or capital loss carryover
17 allowable pursuant to section 43-1029, subsection F.

18 22. Any amount deducted pursuant to section 170 of the internal revenue
19 code representing contributions to a school tuition organization or a public
20 school for which a credit is claimed under section 43-1089 or 43-1089.01.

21 23. Any amount deducted in computing Arizona gross income as expenses
22 for installing solar stub outs or electric vehicle recharge outlets in this
23 state with respect to which a credit is claimed pursuant to section 43-1090.

24 24. Any wage expenses deducted pursuant to the internal revenue code
25 for which a credit is claimed under section 43-1087 and representing net
26 increases in qualified employment positions for employment of temporary
27 assistance for needy families recipients.

28 25. Any amount deducted for conveying ownership or development rights
29 of property to an agricultural preservation district under section 48-5702
30 for which a credit is claimed under section 43-1081.02.

31 26. The amount of any depreciation allowance allowed pursuant to
32 section 167(a) of the internal revenue code to the extent not previously
33 added.

34 27. With respect to property for which an expense deduction was taken
35 pursuant to section 179 of the internal revenue code, the amount in excess of
36 twenty-five thousand dollars.

37 28. THE AMOUNT BY WHICH THE DEPRECIATION OR AMORTIZATION COMPUTED UNDER
38 THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS
39 TAKEN UNDER SECTION 43-1090.01 EXCEEDS THE AMOUNT OF DEPRECIATION OR
40 AMORTIZATION COMPUTED PURSUANT TO THE INTERNAL REVENUE CODE ON THE ARIZONA
41 ADJUSTED BASIS OF THE PROPERTY.

42 29. THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE INTERNAL
43 REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS CLAIMED UNDER
44 SECTION 43-1090.01 AND WHICH IS SOLD OR OTHERWISE DISPOSED OF DURING THE
45 TAXABLE YEAR EXCEEDS THE ADJUSTED BASIS OF THE PROPERTY COMPUTED UNDER
46 SECTION 43-1090.01.

1 30. ANY AMOUNT DEDUCTED IN COMPUTING ARIZONA GROSS INCOME AS EXPENSES
2 FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN THIS STATE
3 WITH RESPECT TO WHICH A CREDIT IS CLAIMED PURSUANT TO SECTION 43-1090.02.

4 Sec. 3. Title 43, chapter 10, article 5, Arizona Revised Statutes, is
5 amended by adding sections 43-1090.01 and 43-1090.02, to read:

6 43-1090.01. Credit for water conservation systems: definition

7 A. SUBJECT TO SUBSECTIONS H AND I OF THIS SECTION, FOR TAXABLE YEARS
8 BEGINNING FROM AND AFTER DECEMBER 31, 2005 AND ENDING BEFORE JANUARY 1, 2011,
9 A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR EACH RESIDENT
10 WHO IS NOT A DEPENDENT OF ANOTHER TAXPAYER FOR INSTALLING A WATER
11 CONSERVATION SYSTEM DURING THE TAXABLE YEAR IN THE TAXPAYER'S RESIDENCE
12 LOCATED IN THIS STATE. THE CREDIT IS EQUAL TO TWENTY-FIVE PER CENT OF THE
13 COST OF THE SYSTEM.

14 B. THE MAXIMUM CREDIT IN A TAXABLE YEAR MAY NOT EXCEED ONE THOUSAND
15 DOLLARS. THE PERSON WHO PROVIDES THE WATER CONSERVATION SYSTEM SHALL FURNISH
16 THE TAXPAYER WITH AN ACCOUNTING OF THE COST TO THE TAXPAYER. A TAXPAYER MAY
17 CLAIM THE CREDIT UNDER THIS SECTION ONLY ONCE IN A TAX YEAR AND MAY NOT
18 CUMULATE OVER DIFFERENT TAX YEARS TAX CREDITS UNDER THIS SECTION EXCEEDING,
19 IN THE AGGREGATE, ONE THOUSAND DOLLARS FOR THE SAME RESIDENCE.

20 C. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER
21 THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS
22 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY
23 BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS A
24 CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

25 D. A HUSBAND AND WIFE WHO FILE SEPARATE RETURNS FOR A TAXABLE YEAR IN
26 WHICH THEY COULD HAVE FILED A JOINT RETURN MAY EACH CLAIM ONLY ONE-HALF OF
27 THE TAX CREDIT THAT WOULD HAVE BEEN ALLOWED FOR A JOINT RETURN.

28 E. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY ALLOWANCE
29 FOR STATE TAX PURPOSES FOR EXHAUSTION, WEAR AND TEAR OF THE WATER
30 CONSERVATION SYSTEM UNDER SECTION 167 OF THE INTERNAL REVENUE CODE.

31 F. TO QUALIFY FOR THE CREDIT UNDER THIS SECTION THE WATER CONSERVATION
32 SYSTEM AND ITS INSTALLATION SHALL COMPLY WITH RULES THAT ARE ADOPTED BY THE
33 DEPARTMENT OF ENVIRONMENTAL QUALITY AND THAT RELATE TO THE RECOVERY AND
34 DISPOSAL OF GRAYWATER.

35 G. A GRAYWATER STUB OUT THAT WAS INSTALLED BY THE BUILDER OF A HOUSE
36 OR DWELLING UNIT BEFORE TITLE WAS CONVEYED TO THE TAXPAYER DOES NOT QUALIFY
37 FOR A CREDIT UNDER THIS SECTION, BUT THE TAXPAYER MAY CLAIM A CREDIT FOR THE
38 DEVICE UNDER SECTION 43-1090.02 OR 43-1182 UNDER THE CIRCUMSTANCES,
39 CONDITIONS AND LIMITATIONS PRESCRIBED BY SECTION 43-1090.02, SUBSECTION C OR
40 43-1182, SUBSECTION C, AS APPLICABLE.

41 H. BEGINNING FROM AND AFTER DECEMBER 31, 2005, THE DEPARTMENT SHALL
42 RECEIVE AND EVALUATE APPLICATIONS THAT ARE SUBMITTED BY TAXPAYERS TO RECEIVE
43 A WATER CONSERVATION SYSTEM CREDIT UNDER THIS SECTION. A TAXPAYER SHALL
44 APPLY FOR THE CREDIT TO THE DEPARTMENT ON A FORM PRESCRIBED BY THE
45 DEPARTMENT. THE APPLICATION SHALL BE FILED WITH THE DEPARTMENT AND THE

1 DEPARTMENT SHALL ISSUE A RECEIPT TO THE APPLICANT. THE APPLICATION SHALL
2 INCLUDE:

3 1. THE NAME, ADDRESS AND SOCIAL SECURITY NUMBER OR FEDERAL EMPLOYER
4 IDENTIFICATION NUMBER OF THE APPLICANT.

5 2. THE AMOUNT OF THE COST OF THE WATER CONSERVATION SYSTEM AND THE
6 AMOUNT FOR WHICH THE CREDIT IS CLAIMED.

7 3. ANY ADDITIONAL INFORMATION THAT THE DEPARTMENT REQUIRES.

8 I. THE DEPARTMENT SHALL REVIEW EACH APPLICATION UNDER SUBSECTION H OF
9 THIS SECTION AND CERTIFY TO THE TAXPAYER THE AMOUNT OF THE CREDIT THAT IS
10 AUTHORIZED. THE DEPARTMENT SHALL NOT CERTIFY TAX CREDITS UNDER THIS
11 SUBSECTION EXCEEDING TWO MILLION DOLLARS FOR ALL CALENDAR YEARS. IF
12 QUALIFYING APPLICATIONS EXCEED TWO MILLION DOLLARS, THE DEPARTMENT SHALL
13 AUTHORIZE CREDITS IN THE ORDER OF THE DATE THAT THE APPLICATIONS ARE RECEIVED
14 BY THE DEPARTMENT. IF AN APPLICATION IS RECEIVED THAT, IF AUTHORIZED, WOULD
15 REQUIRE THE DEPARTMENT TO EXCEED THE TWO MILLION DOLLAR LIMIT, THE DEPARTMENT
16 SHALL GRANT THE APPLICANT ONLY THE REMAINING CREDIT AMOUNT THAT WOULD NOT
17 EXCEED THE TWO MILLION DOLLAR LIMIT. AFTER THE DEPARTMENT AUTHORIZES TWO
18 MILLION DOLLARS IN TAX CREDITS, THE DEPARTMENT SHALL DENY ANY SUBSEQUENT
19 APPLICATIONS THAT ARE RECEIVED. THE DEPARTMENT SHALL NOT AUTHORIZE ANY
20 ADDITIONAL TAX CREDITS THAT EXCEED THE TWO MILLION DOLLAR LIMIT EVEN IF THE
21 AMOUNTS THAT HAVE BEEN CERTIFIED TO ANY TAXPAYER WERE NOT CLAIMED OR A
22 TAXPAYER OTHERWISE FAILS TO MEET THE REQUIREMENTS TO CLAIM THE ADDITIONAL
23 CREDIT.

24 J. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS
25 A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE
26 FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION
27 SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL
28 GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME
29 RESIDENTIAL PROPERTY.

30 43-1090.02. Credit for water conservation system plumbing stub
31 outs installed in houses constructed by taxpayer:
32 definition

33 A. SUBJECT TO SUBSECTIONS F AND G, FOR TAXABLE YEARS BEGINNING FROM
34 AND AFTER DECEMBER 31, 2005 AND ENDING BEFORE JANUARY 1, 2011, A CREDIT IS
35 ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR COSTS INCURRED DURING THE
36 TAXABLE YEAR OF INSTALLING OR INCLUDING IN ONE OR MORE HOUSES OR DWELLING
37 UNITS LOCATED IN THIS STATE AND CONSTRUCTED BY THE TAXPAYER A WATER
38 CONSERVATION SYSTEM PLUMBING STUB OUT THAT COLLECTS ALL GRAYWATER SOURCES
39 THAT END AT A PLUMBING STUB OUT THAT IS SEPARATE AND DISTINCT FROM THE
40 REGULAR PLUMBING SYSTEM. TO QUALIFY FOR THE CREDIT THE STUB OUT MUST:

41 1. COMPLY WITH RULES THAT ARE ADOPTED BY THE DEPARTMENT OF
42 ENVIRONMENTAL QUALITY AND THAT RELATE TO THE DIRECT REUSE OF RECLAIMED WATER.

43 2. MEET APPLICABLE LOCAL BUILDING CODES.

44 B. THE CREDIT SHALL NOT EXCEED TWO HUNDRED DOLLARS FOR EACH SEPARATE
45 HOUSE OR DWELLING UNIT IN WHICH THE WATER CONSERVATION SYSTEM PLUMBING STUB
46 OUTS ARE INSTALLED.

1 C. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS
2 TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS
3 TITLE, THE AMOUNT OF THE CREDIT NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY
4 BE CARRIED FORWARD TO THE NEXT FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT
5 AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

6 D. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP AND
7 SHAREHOLDERS OF AN S CORPORATION, AS DEFINED IN SECTION 1361 OF THE INTERNAL
8 REVENUE CODE, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED
9 UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS
10 ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN
11 ALLOWED A SOLE OWNER.

12 E. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY EXPENSES
13 TAKEN FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN
14 COMPUTING ARIZONA TAXABLE INCOME.

15 F. BEGINNING FROM AND AFTER DECEMBER 31, 2005, THE DEPARTMENT SHALL
16 RECEIVE AND EVALUATE APPLICATIONS THAT ARE SUBMITTED BY TAXPAYERS TO RECEIVE
17 A WATER CONSERVATION SYSTEM PLUMBING STUB OUT CREDIT UNDER THIS SECTION. A
18 TAXPAYER SHALL APPLY FOR THE CREDIT TO THE DEPARTMENT ON A FORM PRESCRIBED BY
19 THE DEPARTMENT. THE APPLICATION SHALL BE FILED WITH THE DEPARTMENT AND THE
20 DEPARTMENT SHALL ISSUE A RECEIPT TO THE APPLICANT. THE APPLICATION SHALL
21 INCLUDE:

22 1. THE NAME, ADDRESS AND SOCIAL SECURITY NUMBER OR FEDERAL EMPLOYER
23 IDENTIFICATION NUMBER OF THE APPLICANT.

24 2. THE AMOUNT OF THE COST OF THE WATER CONSERVATION SYSTEM PLUMBING
25 STUB OUT AND THE AMOUNT FOR WHICH THE CREDIT IS CLAIMED.

26 3. ANY ADDITIONAL INFORMATION THAT THE DEPARTMENT REQUIRES.

27 G. THE DEPARTMENT SHALL REVIEW EACH APPLICATION UNDER SUBSECTION F AND
28 CERTIFY TO THE TAXPAYER THE AMOUNT OF THE CREDIT THAT IS AUTHORIZED. THE
29 DEPARTMENT SHALL NOT CERTIFY TAX CREDITS UNDER THIS SUBSECTION EXCEEDING FIVE
30 HUNDRED THOUSAND DOLLARS FOR ALL CALENDAR YEARS. IF QUALIFYING APPLICATIONS
31 EXCEED FIVE HUNDRED THOUSAND DOLLARS, THE DEPARTMENT SHALL AUTHORIZE CREDITS
32 IN THE ORDER OF THE DATE THAT THE APPLICATIONS ARE RECEIVED BY THE
33 DEPARTMENT. IF AN APPLICATION IS RECEIVED THAT, IF AUTHORIZED, WOULD REQUIRE
34 THE DEPARTMENT TO EXCEED THE FIVE HUNDRED THOUSAND DOLLAR LIMIT, THE
35 DEPARTMENT SHALL GRANT THE APPLICANT ONLY THE REMAINING CREDIT AMOUNT THAT
36 WOULD NOT EXCEED THE FIVE HUNDRED THOUSAND DOLLAR LIMIT. AFTER THE
37 DEPARTMENT AUTHORIZES FIVE HUNDRED THOUSAND DOLLARS IN TAX CREDITS, THE
38 DEPARTMENT SHALL DENY ANY SUBSEQUENT APPLICATIONS THAT ARE RECEIVED. THE
39 DEPARTMENT SHALL NOT AUTHORIZE ANY ADDITIONAL TAX CREDITS THAT EXCEED THE
40 FIVE HUNDRED THOUSAND DOLLAR LIMIT EVEN IF THE AMOUNTS THAT HAVE BEEN
41 CERTIFIED TO ANY TAXPAYER WERE NOT CLAIMED OR A TAXPAYER OTHERWISE FAILS TO
42 MEET THE REQUIREMENTS TO CLAIM THE ADDITIONAL CREDIT.

43 H. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS
44 A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE
45 FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION
46 SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL

1 GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME
2 RESIDENTIAL PROPERTY.

3 Sec. 4. Section 43-1121, Arizona Revised Statutes, is amended to read:

4 43-1121. Additions to Arizona gross income: corporations

5 In computing Arizona taxable income for a corporation, the following
6 amounts shall be added to Arizona gross income:

7 1. The amounts computed pursuant to section 43-1021, paragraphs 3
8 through 9, 12, 26 and 27.

9 2. The amount of dividend income received from corporations and
10 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
11 revenue code.

12 3. Taxes which are based on income paid to states, local governments
13 or foreign governments and which were deducted in computing federal taxable
14 income.

15 4. Expenses and interest relating to tax-exempt income on indebtedness
16 incurred or continued to purchase or carry obligations the interest on which
17 is wholly exempt from the tax imposed by this title. Financial institutions,
18 as defined in section 6-101, shall be governed by section 43-961, paragraph
19 2.

20 5. Commissions, rentals and other amounts paid or accrued to a
21 domestic international sales corporation controlled by the payor corporation
22 if the domestic international sales corporation is not required to report its
23 taxable income to this state because its income is not derived from or
24 attributable to sources within this state. If the domestic international
25 sales corporation is subject to article 4 of this chapter, the department
26 shall prescribe by rule the method of determining the portion of the
27 commissions, rentals and other amounts which are paid or accrued to the
28 controlled domestic international sales corporation and which shall be
29 deducted by the payor. "Control" for purposes of this paragraph means direct
30 or indirect ownership or control of fifty per cent or more of the voting
31 stock of the domestic international sales corporation by the payor
32 corporation.

33 6. Federal income tax refunds received during the taxable year to the
34 extent they were deducted in arriving at Arizona taxable income in a previous
35 year.

36 7. The amount of net operating loss taken pursuant to section 172 of
37 the internal revenue code.

38 8. The amount of exploration expenses determined pursuant to section
39 617 of the internal revenue code to the extent that they exceed seventy-five
40 thousand dollars and to the extent that the election is made to defer those
41 expenses not in excess of seventy-five thousand dollars.

42 9. Amortization of costs incurred to install pollution control devices
43 and deducted pursuant to the internal revenue code or the amount of deduction
44 for depreciation taken pursuant to the internal revenue code on pollution
45 control devices for which an election is made pursuant to section 43-1129.

1 10. The amount of depreciation or amortization of costs of child care
2 facilities deducted pursuant to section 167 or 188 of the internal revenue
3 code for which an election is made to amortize pursuant to section 43-1130.

4 11. Arizona state income tax refunds received, to the extent the amount
5 of the refunds is not already included in Arizona gross income, if a tax
6 benefit was derived by deduction of this amount in a prior year.

7 12. The amount paid as taxes on property in this state by a qualified
8 defense contractor with respect to which a credit is claimed under section
9 43-1166.

10 13. The loss of an insurance company that is exempt under section
11 43-1201 to the extent that it is included in computing Arizona gross income
12 on a consolidated return pursuant to section 43-947.

13 14. The amount by which the depreciation or amortization computed under
14 the internal revenue code with respect to property for which a credit was
15 taken under section 43-1169 exceeds the amount of depreciation or
16 amortization computed pursuant to the internal revenue code on the Arizona
17 adjusted basis of the property.

18 15. The amount by which the adjusted basis computed under the internal
19 revenue code with respect to property for which a credit was claimed under
20 section 43-1169 and which is sold or otherwise disposed of during the taxable
21 year exceeds the adjusted basis of the property computed under section
22 43-1169.

23 16. The amount by which the depreciation or amortization computed under
24 the internal revenue code with respect to property for which a credit was
25 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
26 depreciation or amortization computed pursuant to the internal revenue code
27 on the Arizona adjusted basis of the property.

28 17. The amount by which the adjusted basis computed under the internal
29 revenue code with respect to property for which a credit was claimed under
30 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
31 of during the taxable year exceeds the adjusted basis of the property
32 computed under section 43-1170 or 43-1170.01, as applicable.

33 18. The deduction referred to in section 1341(a)(4) of the internal
34 revenue code for restoration of a substantial amount held under a claim of
35 right.

36 19. The amount by which a capital loss carryover allowable pursuant to
37 section 1341(b)(5) of the internal revenue code exceeds the capital loss
38 carryover allowable pursuant to section 43-1130.01, subsection F.

39 20. Any amount deducted in computing Arizona taxable income as expenses
40 for installing solar stub outs or electric vehicle recharge outlets in this
41 state with respect to which a credit is claimed pursuant to section 43-1176.

42 21. Any wage expenses deducted pursuant to the internal revenue code
43 for which a credit is claimed under section 43-1175 and representing net
44 increases in qualified employment positions for employment of temporary
45 assistance for needy families recipients.

22. Any amount of expenses that were deducted pursuant to the internal revenue code and for which a credit is claimed under section 43-1178.

23. Any amount deducted for conveying ownership or development rights of property to an agricultural preservation district under section 48-5702 for which a credit is claimed under section 43-1180.

24. The amount of any deduction that is claimed in computing Arizona gross income and that represents a donation of a school site for which a credit is claimed under section 43-1181.

25. ANY AMOUNT DEDUCTED IN COMPUTING ARIZONA TAXABLE INCOME AS EXPENSES FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN THIS STATE WITH RESPECT TO WHICH A CREDIT IS CLAIMED PURSUANT TO SECTION 43-1182.

Sec. 5. Title 43, chapter 11, article 6, Arizona Revised Statutes, is amended by adding section 43-1182, to read:

43-1182. Credit for water conservation system plumbing stub
outs installed in houses constructed by taxpayer;
definition

A. SUBJECT TO SUBSECTIONS F AND G, FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2005 AND ENDING BEFORE JANUARY 1, 2011, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR COSTS INCURRED DURING THE TAXABLE YEAR OF INSTALLING OR INCLUDING IN ONE OR MORE HOUSES OR DWELLING UNITS LOCATED IN THIS STATE AND CONSTRUCTED BY THE TAXPAYER A WATER CONSERVATION SYSTEM PLUMBING STUB OUT THAT COLLECTS ALL GRAYWATER SOURCES THAT END AT A PLUMBING STUB OUT THAT IS SEPARATE AND DISTINCT FROM THE REGULAR PLUMBING SYSTEM. TO QUALIFY FOR THE CREDIT THE STUB OUT MUST:

1. COMPLY WITH RULES THAT ARE ADOPTED BY THE DEPARTMENT OF ENVIRONMENTAL QUALITY AND THAT RELATE TO THE DIRECT REUSE OF RECLAIMED WATER.

2. MEET APPLICABLE LOCAL BUILDING CODES.

B. THE CREDIT SHALL NOT EXCEED TWO HUNDRED DOLLARS FOR EACH SEPARATE HOUSE OR DWELLING UNIT IN WHICH THE WATER CONSERVATION SYSTEM PLUMBING STUB OUTS ARE INSTALLED.

C. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS TITLE, THE AMOUNT OF THE CREDIT NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY BE CARRIED FORWARD TO THE NEXT FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

D. CO-OWNERS OF A BUSINESS, INCLUDING CORPORATE PARTNERS IN A PARTNERSHIP, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

E. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY EXPENSES TAKEN FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN COMPUTING ARIZONA TAXABLE INCOME.

F. BEGINNING FROM AND AFTER DECEMBER 31, 2005, THE DEPARTMENT SHALL RECEIVE AND EVALUATE APPLICATIONS THAT ARE SUBMITTED BY TAXPAYERS TO RECEIVE A WATER CONSERVATION SYSTEM PLUMBING STUB OUT CREDIT UNDER THIS SECTION. A

1 TAXPAYER SHALL APPLY FOR THE CREDIT TO THE DEPARTMENT ON A FORM PRESCRIBED BY
2 THE DEPARTMENT. THE APPLICATION SHALL BE FILED WITH THE DEPARTMENT AND THE
3 DEPARTMENT SHALL ISSUE A RECEIPT TO THE APPLICANT. THE APPLICATION SHALL
4 INCLUDE:

5 1. THE NAME, ADDRESS AND SOCIAL SECURITY NUMBER OR FEDERAL EMPLOYER
6 IDENTIFICATION NUMBER OF THE APPLICANT.

7 2. THE AMOUNT OF THE COST OF THE WATER CONSERVATION SYSTEM PLUMBING
8 STUB OUT AND THE AMOUNT FOR WHICH THE CREDIT IS CLAIMED.

9 3. ANY ADDITIONAL INFORMATION THAT THE DEPARTMENT REQUIRES.

10 G. THE DEPARTMENT SHALL REVIEW EACH APPLICATION UNDER SUBSECTION F AND
11 CERTIFY TO THE TAXPAYER THE AMOUNT OF THE CREDIT THAT IS AUTHORIZED. THE
12 DEPARTMENT SHALL NOT CERTIFY TAX CREDITS UNDER THIS SUBSECTION EXCEEDING
13 THREE MILLION DOLLARS FOR ALL CALENDAR YEARS. IF QUALIFYING APPLICATIONS
14 EXCEED THREE MILLION DOLLARS, THE DEPARTMENT SHALL AUTHORIZE CREDITS IN THE
15 ORDER OF THE DATE THAT THE APPLICATIONS ARE RECEIVED BY THE DEPARTMENT. IF
16 AN APPLICATION IS RECEIVED THAT, IF AUTHORIZED, WOULD REQUIRE THE DEPARTMENT
17 TO EXCEED THE THREE MILLION DOLLAR LIMIT, THE DEPARTMENT SHALL GRANT THE
18 APPLICANT ONLY THE REMAINING CREDIT AMOUNT THAT WOULD NOT EXCEED THE THREE
19 MILLION DOLLAR LIMIT. AFTER THE DEPARTMENT AUTHORIZES THREE MILLION DOLLARS
20 IN TAX CREDITS, THE DEPARTMENT SHALL DENY ANY SUBSEQUENT APPLICATIONS THAT
21 ARE RECEIVED. THE DEPARTMENT SHALL NOT AUTHORIZE ANY ADDITIONAL TAX CREDITS
22 THAT EXCEED THE THREE MILLION DOLLAR LIMIT EVEN IF THE AMOUNTS THAT HAVE BEEN
23 CERTIFIED TO ANY TAXPAYER WERE NOT CLAIMED OR A TAXPAYER OTHERWISE FAILS TO
24 MEET THE REQUIREMENTS TO CLAIM THE ADDITIONAL CREDIT.

25 H. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS
26 A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE
27 FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION
28 SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL
29 GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME
30 RESIDENTIAL PROPERTY.

31 Sec. 6. Purpose

32 Pursuant to section 43-223, Arizona Revised Statutes, the legislature
33 enacts sections 43-1090.01, 43-1090.02 and 43-1182, Arizona Revised Statutes,
34 as added by this act, to encourage taxpayers to install water conservation
35 systems to provide for the collection of rainwater or residential graywater
36 for future reuse of the reclaimed water by the taxpayer.

37 Sec. 7. Effective date

38 This act is effective and applies to taxable years beginning from and
39 after December 31, 2005.